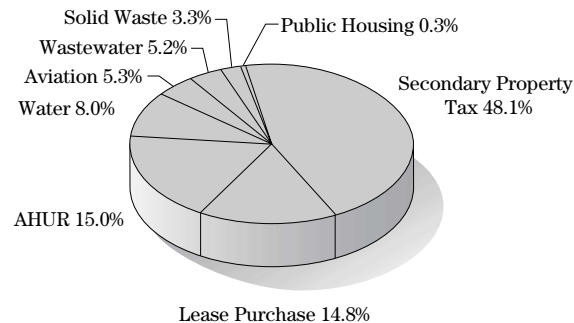


Debt Service and Lease Purchase

Debt service expenditures include payments of principal, interest, sinking fund contributions and bond reserve requirements for bonds issued. The 2004-05 debt service allowance for existing debt and future bond sales is \$180,974,000 and the lease purchase payments are \$31,534,000 for a combined total of \$212,508,000. As shown in the following chart, this \$212.5 million is funded by Secondary Property Tax, Arizona Highway User Revenue, Water, Aviation, Wastewater, Solid Waste, Lease Purchase and Public Housing funds.

2004-05 Debt Service



Types of Bonds Issued and Security

Under Arizona law, cities are authorized to issue voter-approved general obligation, highway user revenue and utility revenue bonds. For the city of Phoenix, this includes property tax-supported bonds and revenue bonds (such as water revenue and airport revenue bonds).

The city's general obligation bonds are "full faith and credit" bonds. This means they are secured by a legally binding pledge to levy property taxes without limit to make annual bond principal and interest payments. Water and airport revenue bonds are secured by a pledge of these enterprises' net revenues (revenues net of operation and maintenance expenses) and do not constitute a general obligation of the city backed by general taxing authority. Highway user revenue bonds are secured by state-shared gas taxes and other highway user fees and charges and also are not general obligations of the city.

Debt Management

In general, the city has used general obligation bonds to finance capital programs of general government (non-enterprise) departments. These include programs such as fire protection, police protection, libraries, parks and recreation, mountain preserves and storm sewers. The debt service on these bonds is paid from the secondary property tax levy. By state law, the city can only use its secondary property tax levy to pay principal and interest on long-term debt.

To finance the capital programs of enterprise departments, the city has made substantial use of revenue bonds secured by and repaid from the revenues of these enterprises. In the past, the city has also used general obligation bonds for water, airport, sanitary sewer and solid waste purposes when deemed appropriate. However, these bonds are repaid from the revenues of these enterprises, not from property taxes or other general revenues.

The city's policy of servicing bonds issued for enterprise purposes with

enterprise revenues (for both revenue and general obligation bonds) is viewed favorably by municipal bond analysts. This practice permits the city to maintain a low-to-moderate debt burden on the property tax base. This debt burden is a key measure evaluated by analysts to assess the city's financial strength.

Since the 1950s, the city has used a community review process to develop and acquire voter approval for general obligation bond programs. To prepare for the special bond election held on March 13, 2001, the mayor and the City Council appointed the 2001 Citizens' Bond Committee composed of nearly 300 members to review the city's fiscal capacity, capital facility needs and operating and maintenance costs of needed facilities. This committee recommended a \$753.9 million bond program to the voters which assumed a continuation of the city's current property tax rate of \$1.82 per \$100 of assessed valuation.



As a result of the efforts of this committee, the voters approved all \$753.9 million of recommended bond authorizations in the March 13, 2001 special election. These authorizations will provide funding to construct capital improvements in the following areas.

- Police protection facilities and equipment
- Police, fire and computer technology
- Environmental improvements and cleanup
- Preserving Phoenix heritage
- Parks, open space and recreational facilities
- Educational, youth and cultural facilities
- Library facilities
- Fire protection facilities and equipment
- Neighborhood protection and senior centers
- Affordable housing and homeless shelter
- Storm sewers
- Street improvements

Bond Ratings

The city's bonds are rated favorably by the major bond rating agencies, Moody's Investors Service and Standard and Poor's. The city's general obligation bonds are rated Aa1 and AA+ respectively. These ratings are half of a rating category below each agency's highest rating.

Maintaining high bond ratings has resulted in a broader market for the city's bonds and lower interest costs to the city.

The following table is a statement of the city's bonded indebtedness as of April 1, 2004.

Statement of Bonded Indebtedness

General Obligation Bonds (In Thousands of Dollars) ⁽¹⁾

Purpose	Non-Enterprise General Obligation Bonds	Revenue Supported General Obligation Bonds	Total General Obligation Bonds	Revenue Bonds	Total Bonds
Various	\$874,559	\$ —	\$ 874,559	\$ —	\$ 874,559
Airport	—	30,855	30,855	44,950	75,805
Sanitary Sewer	—	80,496	80,496	—	80,496
Solid Waste	—	49,470	49,470	—	49,470
Water	—	149,355	149,355	—	149,355
Public Housing	—	—	—	2,540	2,540
Street and Highway	—	—	—	207,316	207,316
Subtotal	\$874,559	\$310,176	\$1,184,735	\$254,806	\$1,439,541
Less: Restricted Funds	(263,317)	—	(263,317)	—	(263,317)
Direct Debt	\$611,242	\$310,176	\$921,418	\$254,806	\$1,176,224
Less: Revenue Supported	—	(310,176)	(310,176)	(254,806)	(564,982)
Net Debt	\$611,242	\$ —	\$ 611,242	\$ —	\$ 611,242

(1) These figures do not include the outstanding principal amounts of certain general obligation bonds, water revenue bonds, and street and highway user revenue bonds that have been refunded or the payment of which has been provided in advance of maturity. The payment of the debt service requirements on such bonds (including redemption premiums where applicable) is secured by federal securities that were purchased with proceeds of the refunding issues and other available monies that are held in irrevocable trusts and city-held special investment funds.

Debt Limitation

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, sewer, lighting, park, open space and recreational purposes may not exceed 20 percent of a city's net secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of a city's net secondary assessed valuation. Unused borrowing capacity as of April 1, 2004, based upon 2003-04 assessed valuation is shown in the following tables.

Debt Burden

Debt burden is a measurement of the relationship between the debt of the city supported by its property tax base (net direct debt) to the broadest and most generally available measure of wealth in the community: the assessed valuation of all taxable property and the assessed valuation adjusted to reflect market value. In addition, net debt can be compared to population to determine net debt per capita. The city makes these comparisons each time it offers bonds for sale. They are included in the official statements (bond prospectuses) that are distributed to prospective investors. The following table provides debt burden ratios as of April 1, 2004.

The city's debt burden remains in the low-to-moderate range. This means the amount of net debt supported by the city's property tax base is moderate relative to the value of that tax base.

The city has considerable bonded debt outstanding. However, the use of revenue bonds for enterprise activities and enterprise-supported general obligation bonds, in combination with a well-managed, property tax-supported bond program, has permitted the maintenance of a low-to-moderate debt burden.

Water, Sewer, Lighting, Parks, Open Space and Recreational Purpose Bonds

20% Constitutional Limitation	\$1,958,437,683
Direct General Obligation Bonds Outstanding	(790,295,076)
Unused 20% Limitation Borrowing Capacity	\$1,168,142,607

All Other General Obligation Bonds

6% Constitutional Limitation		\$587,531,305
Direct General Obligation Bonds Outstanding	\$394,440,000	
Less: Principal Redemption Funds held in Restricted Fund as of March 1, 2004	(263,316,717)	
Direct General Obligation Bonds Outstanding		(131,123,283)
Unused 6% Limitation Borrowing Capacity		\$456,408,022

Net Direct General Obligation Bonded Debt Ratios

	Per Capita Debt Pop. Est. as of April 1, 2004 (1,481,675)	Secondary Assessed Valuation (\$9,792,188,415)	Full Cash Valuation (\$79,124,594,645)
Direct General Obligation Bonded Debt Outstanding as of April 1, 2004	\$625.47	9.46%	1.17%
Net Direct General Obligation Bonded Debt Outstanding as of April 1, 2004	412.53	6.24%	0.77%



Lease Purchase

In addition to bonded debt, the city uses nonprofit corporation bonds as a financing tool. This form of financing involves the issuance of bonds by a nonprofit corporation for city-approved projects. The city makes annual payments equal to the bond debt service requirements to the corporation under a lease-purchase or purchase agreement.

The city's payments to the corporation are guaranteed by a pledge of excise taxes or revenues generated by the city's airport, water system or wastewater system. Pledged excise taxes may include city sales, use, utility and franchise taxes; license and permit fees; and state-shared sales and income taxes.

The city has used nonprofit corporation financing selectively. In general, it has financed only those projects that will generate revenues adequate to support the annual debt service requirements or that generate economic benefits that more than offset the cost of financing. Similar to bonded debt, these financings are rated by bond rating agencies. The most recent ratings for excise tax revenue bonds by Standard and Poor's and Moody's Investor Service were AAA and Aa2 respectively.

Debt Service and Lease Purchase Expenditures by Source of Funds
(In Thousands of Dollars)

Fund	2002-03 Actual	2003-04 Estimate	2004-05 Budget
Secondary Property Tax	\$ 85,488	\$ 95,384	\$102,252
Aviation	11,618	11,476	11,158
Arizona Highway User Revenue	21,609	31,268	31,986
Public Housing	546	549	550
Solid Waste	9,297	7,343	6,906
Sports Facilities	6,812	6,871	6,958
Wastewater	10,454	10,472	11,135
Water	27,150	27,255	16,987
City Improvement (Various Lease Purchase)	17,008	30,240	24,576
Total	\$189,982	\$220,858	\$212,508

